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The Petitions Committee
Parliament Buildings,
WELLINGTON.
9th June 2022

Verbal Submission on our petition to keep the Marsden Point oil refinery operational

I want you to consider for a moment what would happen if diesel fuel supplies ran out across New Zealand tonight.

Meals at Bellamy's (or any other of your favourite restaurants) would not be available next week.

Supermarket shelves would be empty by Monday.

Tractors, harvesters, and the trucks that carry our farm products to processors and to our export hubs would stop. The tap on our annual $20 billion in overseas income from dairy products would be turned off. Every day, 5.8 million litres of milk would flood farmland and rivers. Thousands of tons of food would go to waste.

Our fishing fleets would remain tied up in port and inter-island ferries and those serving far flung communities would not run. Ships delivering essential supplies to the Pacific Islands would not put to sea.

Railway tracks would remain silent and our truck fleet would stay in their yards. Thousands of tons of cargo would stay stacked at our ports and in warehouses. Container ships would back up at our ports.

Heavy construction machinery and infrastructure and road building equipment could not operate and our forestry operations would come to a halt.

The list is only the tip of a vastly more complex iceberg. The accompanying job losses and commercial losses would bankrupt thousands of businesses and cripple the country's economy for years.

Food shortages would see New Zealanders facing the starvation and deprivation we only ever see on television in countries in Africa.

This is not a fanciful risk. We are heavily dependent on a regular fuel supply. Yet our government has relied on the promises of the oil companies that they'll be able to supply adequate refined fuel imports to ensure that we will never have to face the grim circumstances I just outlined.

Where is the document that backs up those assurances from the oil companies and Channel Infrastructure?

Where is the proof that they can meet their commitments?

Where are the detailed plans laid out to deal with possible disruptions to our fuel supply routes, and potential alternative sources other than the Asian refineries which is where our fuel is now being imported from?

Where are the sanctions that will be imposed on them if those commitments turn out to be hollow words?

They can make any number of promises but in the end they have little to lose if they fail. New Zealand on the other hand has a great deal to lose

If any of those documents exist they certainly do not appear to have been made public.

And even if they do exist, where is the government's insurance policy in case those assurances cannot be met?

Every commercial landlord has an insurance policy to protect their income where a tenant is unable to meet their assurances of regular lease payments. Those landlords will have, in most cases, commitments themselves to their banks. They would not leave themselves unprotected and risk the bank taking over their property.

Yet our government was naive enough to accept oil company assurances that they would be able to ensure security of New Zealand's fuel supply in a crisis.

Prepared to put the entire New Zealand economy, thousands of companies and shareholders, and the entire population, at grave risk without any insurance policy of any kind.

The strategy is one of either exceptional daring and brinkmanship comparable to the worlds richest gamblers, or incredible naivety - incomprehensible to anyone who pauses for a moment to think about it.

Australia was not prepared to take that gamble, yet our government, with responsibility for ensuring New Zealand's fuel security in a country at the very far flung extreme of the supply chain was.

The paper written by MBIE and presented to cabinet in November 2021 by Energy Minister, Megan Woods, states *"There does not appear to be a clear case for maintaining refinery operations for fuel resilience reasons, except to address an exceptional 'no fuel imports' scenario. This is an unlikely scenario,* ***but not entirely implausible****, therefore I believe the option of maintaining refinery capacity warrants an active decision by Government".*

The active decision by government was to do nothing.

Crucially missing from the report was the analysis of what those scenarios might be, and the potential cost to the country if one eventuated?

New Zealand researcher Tobias Dalley looked into 15 years of risk assessments done for the government, for his masters degree research two years ago into New Zealand's oil security.

He said he was baffled at the blinkered way this country has for years been weighing the risks of running out of fuel.

He said it was "staggering" how these reports relied on assumptions the market could weather any crisis.

"When I started my research, I was quite baffled to find ... those assumptions, and that we haven't actually concluded a comprehensive assessment or modelling of our supply chain and its security."

If one of those ‘high consequence events’ MBIE refers to eventuates, New Zealand will be exposed, forced to invoke the international agreement and draw down on reserve stocks notionally held (on paper not in tanks) in other countries. That would mean other countries giving up some of their own refined product to supply us, something they are most unlikely to do when their own supplies are being put under similar pressure as New Zealand's.

So what were the possibilities MBIE appeared to ignore – possibilities that anyone who spent more than a few minutes considering international issues unfolding and future potential events might have factored into their thinking?

Number one - Russia’s annexation of Crimea and the potential for further Russian occupations as the ties of former Russian aligned states to NATO strengthened.

Number two – China’s increasing economic power, more aggressive attitude to Taiwan, and it’s increasing spread of influence into the Pacific, with, for example, it’s action off the coast of the Philippines in defiance of international rulings.

If you couldn’t see those then where has your concentration and MBIE’s concentration been?

Both of those possibilities have now come to pass.

Number one - Russia has invaded Ukraine. This has caused massive spikes in fuel prices. The Financial Times reported last week *that “Oil prices have renewed their rise in the most sustained ascent since Russia’s invasion of Ukraine as* ***a fuel supply crunch*** *adds pressure to the market…..” “The disturbance to flows of oil and related products from Russia has rippled through energy markets as refineries are racing to pump out petroleum products to meet the needs of a global economy that is still emerging from the shock on Covid-19.” “Oil analysts said that* ***a shortage of processing capacity*** *has compounded an extreme squeeze on the availability of products such as diesel, gasoline, and jet fuel….”*

Number two – China has signed a security agreement with the Solomon Islands and is touring most other Pacific nations seeking agreements on security and development. Other countries could see that coming, but not our government apparently, nor did MBIE. But others did. AUKUS, a new pact between Australia, Britain, and the US announced late last year, was in response to Chinese moves and will see Australia with nuclear powered submarines as tensions across the Pacific rise. Those tensions have the potential to put pressure on shipping routes from the Asian refineries which are currently our only source of fuel.

Those shipping lanes may face closure, so where will New Zealand's refined fuel come from, and how long will it take to source alternatives in a world already facing "***a fuel supply crunch"*** ?

And there's a third – From Reuters on 9th January 2020 - "*Asian refiners prefer to process Middle East crude grades as they are generally cheaper than oil from other regions due to relatively higher sulphur levels.*

Despite efforts to diversify purchases beyond the Middle East, South Korea, Singapore and Taiwan still need to import 70-75% of their crude from the Gulf". (1)

That same Financial Times article referred to earlier went on to say – *"Oil markets also face fresh threats to supply after Iran seized two Greek tankers last week, dimming the possibility of any breakthrough in the Iranian nuclear deal, which would pave the way for a return of the country's oil supplies to global supply chains.* ***The move may additionally curb the free flow of oil out of the Middle East by other producers****…"*

Already, we've identified three potentially high consequence events***.***

We stand exposed, at risk, with no insurance. Are we going to continue to leave our heads buried in the sand and ignore what's going on around us?

The Cabinet paper previously referred to contains this:

*"****The loss of domestic refining could have more adverse outcomes in an unlikely, but potentially high consequence, event*** *in which New Zealand becomes completely or significantly cut off from global fuel markets for an extended period. "*

*"****An extended "closed border" event would have a severe impact*** *whether or not New Zealand has a domestic refinery,* ***but the impact could potentially be worse without a refinery.***

Having a domestic refinery could potentially enable the refining of at least some fuels from crude oil produced within New Zealand *together with any imported crude oil that is available."*

So what should we do?

Provide that insurance policy by having a working refinery. We produce, in Taranaki, approximately one third of the maximum throughput capacity of the refinery. While not designed to run on that grade of crude, it could do so in a crises (despite claims made by MBIE in their submission (14, 15, 16) and the refinery management).

The refinery infrastructure is now redundant – programmed for demolition. Its value to Channel Infrastructure is in the scrap steel range only. It is cheaper now to acquire then ever before and it holds a liability for them - the costs for remediation of the refinery site (environmental cleanup) which is estimated to be in the vicinity of $300 million.

As our petition recommends, the government could declare the Marsden Point Oil Refinery a nationally strategic asset and compulsorily purchase it from Channel Infrastructure (using money created by the country's central bank) and turn it back into a state owned enterprise.

(1) https://www.reuters.com/article/asia-mideast-oil-factbox-idINKBN1Z71VW

The Reserve Bank has already created around $60 billion in the last two years and the estimated $100 - $150 million needed to purchase the refinery and reinstate its operational capacity would be a drop in the bucket.

No taxpayer money would be required. The Reserve Bank created (digital) money is not borrowed for any other source and would not need to be repaid to the Bank.

Reserve Bank Deputy Governor, Christian Hawkesby confirmed the bank is doing this on TVNZ's Seven Sharp programme on April 30th 2020.

"We're creating electronic money to buy government bonds", he said. "Through this process we create money." "Twenty years ago this would have been considered unconventional monetary policy". "Now, with Covid-19, effectively every developed country around the world is undertaking this sort of practice".

This was confirmed by RBNZ chief economist Yuong Ha on August 14th 2020. "We create money … which is what central banks do, and have always done, but we then exchange it for assets but those sit on our balance sheet."

The advantages of New Zealand owning the refinery

Fuel supply is essential to the economy. With control of the refinery the country would gain:

1. Greater fuel security with the option to refine our own oil in a crisis.
2. Reduced costs for New Zealanders with control over pricing leading to lower transport costs and a reduction in prices for goods and services.
3. Reduced costs for exporters in getting products to ports and lower air freight charges.
4. An infrastructure base for the development of new fuel options
5. More competition at the pumps as new retailers would have an easier entry into the market (with the refinery acting as a wholesaler).
6. Reduced pressure on our overseas exchange as profits would not be transmitted off-shore using up valuable overseas exchange.

We therefore call on this committee to recommend to the House of Representatives that it declare the Marsden Point Oil Refinery a nationally strategic asset and require the Government to purchase it from the private owners (using money created by the country's central bank) so it continues to operate and provide fuel security for New Zealand.

Chris Leitch
Leader